

Message Text

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ORIGIN ARA-10

INFO OCT-01 ISO-00 TRSE-00 OMB-01 CIAE-00 DODE-00 PM-03

H-02 INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02

SS-15 USIA-06 AID-05 IGA-01 EB-07 COME-00 MC-02 /072 R

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ARA/PLC - MR. WILLIAMS (DRAFT)

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P 101906Z JUL 75

FM SECSTATE WASHDC

TO AMEMBASSY CARACAS PRIORITY

C O N F I D E N T I A L STATE 162368

E.O. 11652: GDS

TAGS: MASS, VE

SUBJECT: BACKGROUND TO GOV REJECTION OF FY 1975 FMS CREDIT

REF: A) STATE 151832, B) SONANDRES-RANDOLPH TELCON OF 6/30,
C) COMUSMILGPVEN MESSAGE 011607Z OF JULY 75

1. FOLLOWING DESIGNED TO PROVIDE EMBASSY BACKGROUND INFORMATION, SOME FOR ITS OWN USE AND SOME FOR DISCUSSION WITH GOV AT EMBASSY'S DISCRETION, CONCERNING THE INABILITY OF USG TO AGREE TO MODIFICATION OF FEDERAL FINANCING BANK (FFB) LOAN AGREEMENT, WHICH WOULD HAVE EXTENDED \$17 MILLION GUARANTEED LOAN TO GOV. DEPARTMENT WOULD ALSO APPRECIATE RECEIVING EMBASSY COMMENTS ON (OR CLARIFICATION OF) GOV ATTITUDES AND EVENTS IN CARACAS WHICH LED TO GOV DECISION NOT TO SIGN LOAN AGREEMENT, TO HELP USG UNDERSTAND REASONS FOR GOV DECISION.

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2. WHEN GENERAL LOSADA VOLCAN, PERSONAL REPRESENTATIVE OF VENEZUELAN MOD, VISITED WASHINGTON IN APRIL 1975 HE WAS PROVIDED WITH DRAFT LOAN AGREEMENT TEXT AND TOLD THAT USG PLANNING FIGURE FOR VENEZUELAN FMS CREDIT WAS \$17 MILLION

GUARANTEED LOAN. THIS DRAFT TEXT CONTAINED THE PASSAGES CONCERNING POSSIBLE LITIGATION TO WHICH GOV EVENTUALLY OBJECTED. DURING LOSADA VISIT, NEW FMS GUARANTY PROCEDURES WERE FULLY DISCUSSED WITH LOSADA IN MEETING WITH STATE,

DOD, AND TREASURY REPRESENTATIVES.

3. UPON RETURN TO CARACAS, LOSADA APPARENTLY CIRCULATED DRAFT TEXT WITHIN GOV AND ELICITED SEVERAL OBJECTIONS. GOV OBJECTIONS WERE INCORPORATED INTO PROPOSED REDRAFT BY GOV AND MAILED THROUGH MILGP TO DOD IN EARLY JUNE. AFTER FURTHER CONSIDERATION, TREASURY COMMENTS ON GOV REDRAFT WERE CABLED TO USMILGP ON JUNE 23. ON JUNE 26, MILGP INFORMED TREASURY THAT GOV ACCEPTED FFB COMMENTS ON REDRAFT; BUT THAT A NEW OBJECTION HAD ARISEN ON THE PROVISION REGARDING POSSIBLE LITIGATION (SECTION 5(D)). TREASURY REVIEWED THE OBJECTION AND INFORMED THE MILGP AND THE DEPARTMENT THE SAME DAY THAT SECTION 5(D) MUST REMAIN AS WRITTEN. REF. C CONFIRMED GOV COMPTROLLER GENERAL'S OBJECTION TO THIS PROVISION ON VENEZUELAN CONSTITUTIONAL GROUNDS.

4. AT REQUEST OF GOV AND DOD, SIGNING OF FFB LOAN AGREEMENT AND PRIOR NEGOTIATION WAS TO TAKE PLACE IN CARACAS. THUS, THERE WERE NUMEROUS TELEPHONE CALLS AND OTHER MESSAGES AMONG MILGP, TREASURY AND DOD, NECESSITATED BY THE FACT THAT MILGP WAS TREASURY'S AGENT ON THE SPOT IN CARACAS. THIS PROCEDURE HAD DEPARTMENT'S CONCURRENCE, AND DEPARTMENT LEARNED ON JUNE 26 OF DISAGREEMENT ON PROVISION REGARDING POSSIBLE LITIGATION. DEPARTMENT APPROACHED TREASURY AGAIN ON JUNE 30, AND THE FFB POSITION WAS UPHELD. (FYI ARA WAS NOT AWARE THAT THIS DISAGREEMENT WAS NON-NEGOTIABLE UNTIL NOON, JUNE 30.) IT IS DEPARTMENT'S IMPRESSION THAT FIRMNESS OF FFB'S POSITION ON LITIGATION PASSAGE IN LOAN AGREEMENT WAS NOT FULLY UNDERSTOOD BY GOV, LARGELY BECAUSE GOV HAD BEEN SUCCESSFUL IN HAVING SIMILAR PASSAGES STRICKEN FROM FMS CONFIDENTIAL

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DIRECT CREDIT AGREEMENTS WHICH IT HAD SIGNED WITH DOD IN THE PAST. IN THESE EARLIER CASES, HOWEVER, FFB WAS NOT INVOLVED.

5. SINCE BEFORE START OF GOV-TREASURY NEGOTIATIONS, TREASURY HAD BEEN OPPOSED TO EXTENSION OF CREDIT TO GOV. TREASURY MEMO TO UNDER SECRETARY FOR SECURITY ASSISTANCE DATED JUNE 19, 1975 SAID:

A. BEGIN QUOTE: IN OUR VIEW THERE IS NO ECONOMIC JUSTIFICATION FOR PROVIDING CREDITS OF THIS KIND TO A COUNTRY WITH A FINANCIAL POSITION AS STRONG AS THAT OF VENEZUELA. WE ALSO BELIEVE THAT CIRCUMVENTING VENEZUELA'S

CONGRESS AND BUDGETARY PROCESS IN EXTENDING CREDITS FOR MILITARY PURPOSES -- NOT LIKELY TO BE SUPPORTED BY THE VENEZUELAN CONGRESS IF BUDGETARY OR PRIVATE FINANCING WERE

REQUIRED -- IS UNWISE. FURTHERMORE, IN VIEW OF THE LIMITED RESOURCES AVAILABLE UNDER THE FMS PROGRAM, IT WOULD APPEAR THERE ARE NEEDY RECIPIENTS IN THE LATIN AMERICAN REGION AND ELSEWHERE WITH MORE COMPELLING REQUIREMENTS THAT ARE CONSISTENT WITH OUR NATIONAL SECURITY AND FOREIGN POLICY OBJECTIVES.

B. WHILE POLITICAL ARGUMENTS ARE PRIMARILY THE RESPONSIBILITY OF THE DEPARTMENT OF STATE WE FIND UNCONVINCING THE ARGUMENT THAT A DECISION TO PHASE OUT FMS CREDITS WOULD HAVE ANY LASTING NEGATIVE IMPACT ON EFFORTS TO IMPROVE OUR BILATERAL RELATIONS WITH THE GOV.

C. FOR ALL THESE REASONS TREASURY CANNOT CONCUR IN THIS PROPOSAL. END QUOTE.

6. ON JUNE 25, UNDER SECRETARY FOR SECURITY ASSISTANCE APPROVED THE ISSUANCE OF FMS GUARANTY OF \$17 MILLION LOAN TO GOV, NOTING TREASURY OPPOSITION BUT APPROVING LOAN ON GROUND THAT QUOTE THERE ARE OVERRIDING POLITICAL CONSIDERATIONS INVOLVED . . . END QUOTE.

7. ON JUNE 27, TREASURY CONCURRED WITH DEPARTMENT IN EXTENSION OF LOAN (AS REFLECTED REF. A.) BUT REITERATED CONFIDENTIAL

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FEDERAL FINANCING BANK (FFB) POSITION THAT PASSAGE IN LOAN AGREEMENT REGARDING POSSIBLE LITIGATION MUST REMAIN AS WRITTEN. TREASURY ASSURED STATE THAT THERE WAS NO RELATIONSHIP BETWEEN ITS EARLIER OPPOSITION TO THE PROPOSED LOANS AND THE FFB POSITION ON LITIGATION. FFB TAKES THIS POSITION REGARDLESS OF COUNTRY INVOLVED. FFB'S POSITION WAS CONFIRMED IN JUNE 30 TELCON BETWEEN ARA DEPUTY ASSISTANT SECRETARY LUERS AND SECRETARY OF FFB, A DECISION UPHELD BY THE SECRETARY OF TREASURY.

8. DEPARTMENT PARTICULARLY INTERESTED TO KNOW:

A. EMBASSY'S VIEW ON WHETHER WE SHOULD PLAN FURTHER FMS GUARANTEED LOANS TO GOV IN VIEW OF GOV COMPTROLLER GENERAL'S POSITION;

B. WHETHER THE MOD WOULD HAVE BEEN READY TO SIGN THE AGREEMENT AS WRITTEN EXCEPT FOR GOV COMPTROLLER'S OBJECTION TO SECTION 5(D);

C. EMBASSY'S ESTIMATE OF BROAD BILATERAL EFFECT OF USG'S INABILITY TO PROVIDE FY 1975 FMS LOAN ON BASIS GOV

WANTED;

D. TO WHAT EXTENT TREASURY'S COMMENT (PARA 5.A. ABOVE) REGARDING QUOTE CIRCUMVENTING VENEZUELAN CONGRESS AND BUDGETARY PROCESS UNQUOTE HAS MERIT OR COULD HAVE BEEN A FACTOR IN GOV DECISION NOT TO ACCEPT CREDIT;

E. EMBASSY'S ASSESSMENT OF CHANCE THAT GOV COMPTROLLER GENERAL'S POSITION MAY CHANGE BEFORE THE END OF FY 1976.

F. WHETHER EMBASSY HAS KNOWLEDGE OF OTHER LOANS IN WHICH GOV HAD AGREED TO A SIMILAR CLAUSE.

9. FYI. TREASURY INFORMS US THAT ALL LOANS SIGNED WITH OTHER GOVERNMENTS IN FY 1975, CONTAINED THE STANDARD LANGUAGE ON POSSIBLE LITIGATION TO WHICH THE GOV OBJECTED. WHILE ONE OTHER GOVERNMENT OBJECTED TO THIS LANGUAGE IT SIGNED ANYWAY. TREASURY ALSO INFORMS US THAT THERE CONFIDENTIAL

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IS LIKELY TO BE STRONGER OBJECTION TO A LOAN TO VENEZUELA IN FY 1976 (AND BEYOND) THAN THERE WAS IN FY 1975; THEREFORE, IT IS IMPORTANT THAT THERE BE NO SUGGESTION TO GOV AT THIS TIME THAT THERE WILL BE FMS CREDIT FOR FY 1976.

10. DEPARTMENT HAS MATTER UNDER REVIEW AND WILL EXPLORE POSSIBLE OPTIONS TO AVOID RECURRENCE OF LITIGATION CLAUSE PROBLEM. INGERSOLL

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Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CREDIT, POLICIES, MILITARY SALES, LOAN AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 10 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE162368
Document Source: ADS
Document Unique ID: 00
Drafter: ARA:NC:TWSONANDRES:PM:SAS:GSWEANEY
Enclosure: n/a
Executive Order: 11652 GDS
Errors: n/a
Film Number: D750238-1132
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t197507104/baaaaovz.tel
Line Count: 197
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN ARA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 15 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 SEP 2003 by CunninFX>; APPROVED <29 OCT 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: MASS, VE, US, FFB
To: CARACAS
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006